

REPORT OF EXAMINATION
OF THE
COMPWEST INSURANCE COMPANY
AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed September 17, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION	1
SUBSEQUENT EVENTS.....	2
COMPANY HISTORY	2
MANAGEMENT AND CONTROL:.....	3
Inter-Company Agreement.....	4
TERRITORY AND PLAN OF OPERATION.....	5
GROWTH OF COMPANY	5
REINSURANCE:	5
Assumed	5
Ceded.....	6
ACCOUNTS AND RECORDS:	8
Information Systems Controls.....	8
FINANCIAL STATEMENTS:	8
Statement of Financial Condition as of December 31, 2006.....	9
Underwriting and Investment Exhibit for the Year Ended December 31, 2006	10
Reconciliation of Surplus as Regards Policyholders from August 18, 2004 through December 31, 2006	11
COMMENTS ON FINANCIAL STATEMENT ITEMS:	12
Bonds and Stocks	12
Losses and Loss Adjustment Expenses	12
SUMMARY OF COMMENTS AND RECOMMENDATIONS:	12
Current Report of Examination	12
Previous Report of Examination	13
ACKNOWLEDGEMENT.....	13

San Francisco, California
September 7, 2007

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

COMPWEST INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 301 Howard Street, Suite 1700, San Francisco, California 94105.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of August 17, 2004 for the purpose of determining if the Company's financial condition met the minimum statutory requirements necessary for the issuance of its Certificate of Authority. This examination covers the period from August 18, 2004 through December 31, 2006. The examination was conducted pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, and an evaluation of assets and a

determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; business in force by states; loss experience; and sales and advertising.

SUBSEQUENT EVENTS

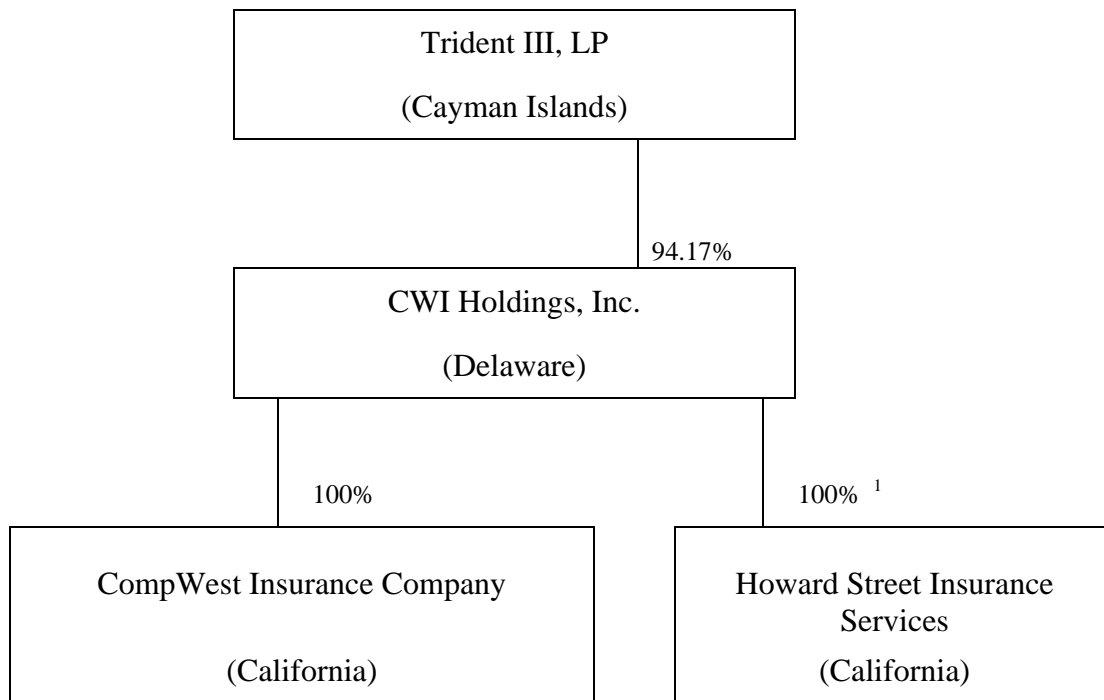
On August 27, 2007, the Company informed the California Department of Insurance that Accident Fund Insurance Company of America entered into an agreement with the shareholders of the Company's parent, CWI Holdings, Inc., to purchase CWI Holdings, Inc. and its wholly-owned subsidiaries, including the Company. Accident Fund Insurance Company of America is based in Lansing, Michigan. It is the Company's understanding that the acquirer is currently in the process of filing for regulatory approval of this transaction.

COMPANY HISTORY

The Company was organized on April 28, 2004. It received its Certificate of Authority on September 22, 2004, authorizing it to write disability, liability and workers' compensation lines of business in the State of California. The Company's Articles of Incorporation and Bylaws have not changed since the inception of the Company. Under the Articles of Incorporation, the Company is authorized to issue 10,000 shares of common stock, with a par value of \$100. On August 10, 2004, 10,000 shares were issued to CWI Holdings, Inc. for \$5,000 per share, creating paid-in capital of \$1,000,000 and paid-in and contributed surplus of \$49,000,000.

MANAGEMENT AND CONTROL

The Company is part of a holding company system in which Trident III, L.P. (Trident), a Cayman Islands limited partnership, is the primary investor and ultimate controlling entity. Trident is a \$1.1 billion private equity fund established in 2003 that is exclusively focused on investments in the insurance, reinsurance and financial services industries. The manager of Trident is Stone Point Capital, LLC, the successor to MMC Capital, a former subsidiary of Marsh & McLennan Companies. An entity named Howard Street Insurance Services was formed in 2006 but this entity had no capitalization or operations as of the examination date. The following chart depicts the relationship of the companies within the holding company system:



¹ Not yet funded as of December 31, 2006.

Management of the Company is vested in a five-member board of directors. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffrey N. Cohen Weston, Connecticut	Principal, Investment Team Stone Point Capital LLC
Christopher M. Doody New York, New York	Principal, Investment Team Stone Point Capital LLC
Meryl D. Hartzband New York, New York	Chief Investment Officer, Stone Point Capital LLC
William J. Mudge, IV San Francisco, California	President, CompWest Insurance Company
Stephen C. Pogue Portola Valley, California	Secretary, CompWest Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
William J. Mudge, IV	President
Stephen C. Pogue	Secretary
Patrick J. Persse	Treasurer
Ronald D. Field	Vice President, Claims
Kenneth R. Van Laar, Jr.	Vice President, Underwriting

Inter-Company Agreement

Tax Allocation Agreement: The Company is party to a tax allocation agreement with its parent, CWI Holdings, Inc. The agreement provides for the federal tax returns of the parties to be filed on a consolidated basis. Allocation is based on separate company return calculations, with the Company's consolidated liability never to exceed its separate company calculation. The

agreement was reviewed by the California Department of Insurance as part of the Company's licensing process.

TERRITORY AND PLAN OF OPERATION

The Company provides workers' compensation coverage to mid-sized companies in low to medium severity industries. As of December 31, 2006, the Company was licensed in the following states: Arizona, California, Nevada, Oregon, and Utah. The Company in 2006 had direct written premiums of \$100,024,284, all of which were written in California.

The Company's business is produced through 39 independent brokers. A branch office is maintained by the Company in Santa Ana, California for premium and claim services.

GROWTH OF COMPANY

The Company has experienced rapid growth since it began writing business in September 2004, while maintaining growth in surplus as can be seen in the following Annual Statement data:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Direct Premiums Written	\$ 1,019,515	\$39,739,852	\$100,024,284
Net Income (Loss)	(1,425,629)	9,166	8,782,905
Surplus as Regards Policyholders	48,097,896	49,025,785	57,722,053
Direct Premium Written to Surplus	.02	.81	1.7

REINSURANCE

Assumed

The Company assumed no reinsurance.

Ceded

The Company was covered under multiple layers of excess of loss and catastrophe excess of loss layers as follows at December 31, 2006:

<u>Type of Contract</u>	<u>Reinsurers</u>	<u>Company Retention</u>	<u>Reinsurer's Maximum Limits</u>
Excess of Loss	<u>All Authorized, Approved or Accredited:</u> ACE Property & Casualty Insurance Company (17.5 %) Endurance Reinsurance Corporation of America (17.5 %) Hannover Ruckversicherungs - A.G. (12.5 %) Odyssey America Reinsurance Corporation (17.5 %) Partner Reinsurance Company of the U.S. (7.5 %) Lloyd's of London Syndicate No. 2000 (7.5 %) Munich Reinsurance America, Inc. (20.0 %)	\$1.5 million	<u>1st Layer:</u> \$3.5 million
Excess of Loss	<u>All Authorized, Approved or Accredited:</u> ACE Property & Casualty Insurance Company (15.0 %) Endurance Reinsurance Corporation of America (17.5 %) Hannover Ruckversicherungs - A.G. (12.5 %) Odyssey America Reinsurance Corporation (22.5 %) Lloyd's of London Syndicate No. 2000 (2.5 %) Lloyd's of London Syndicate No. 2987 (2.5 %) Aspen Insurance UK Limited (2.5 %) Munich Reinsurance America, Inc. (25.0 %)	\$5 million	<u>2nd Layer:</u> \$5 million
Catastrophe Excess of Loss	<u>A = Authorized; U = Unauthorized:</u> Endurance Specialty Insurance Limited (20.0 %) - U Swiss Reinsurance America Corporation (20.0 %) - A Munich Reinsurance America, Inc. (27.5 %) - A Six Authorized and Unauthorized Reinsurers (32.5 %)	\$10 million	<u>1st Layer:</u> \$10 million

<u>Type of Contract</u>	<u>Reinsurers</u>	<u>Company Retention</u>	<u>Reinsurer's Maximum Limits</u>
Catastrophe Excess of Loss	<u>A = Authorized; U = Unauthorized:</u> Arch Reinsurance Company (10.0 %) - A Axis Specialty Limited (12.5 %) - U Endurance Specialty Insurance Limited (15.0 %) - U Swiss Reinsurance America Corporation (17.5 %) - A Eleven Authorized and Unauthorized Reinsurers (45.0 %)	\$20 million	<u>2nd Layer:</u> \$30 million
Catastrophe Excess of Loss	<u>A = Authorized; U = Unauthorized:</u> Allied World Assurance Company Limited (10.0 %) - U Endurance Specialty Insurance Limited (11.0 %) - U Platinum Underwriters Bermuda Limited (17.5 %) - U Swiss Reinsurance America Corporation (20.0 %) - A Ten Authorized and Unauthorized Reinsurers (41.5 %)	\$50 million	<u>3rd Layer:</u> \$50 million
Catastrophe Excess of Loss	<u>A = Authorized; U = Unauthorized:</u> Allied World Assurance Company Limited (10.0 %) - U Hannover Re (Bermuda) Limited (10.0 %) - U Swiss Reinsurance America Corporation (25.0 %) - A Ten Authorized and Unauthorized Reinsurers (55.0 %)	\$100 million	<u>4th Layer:</u> \$50 million

ACCOUNTS AND RECORDS

Information Systems Controls

During the course of the examination, a review was made of the Company's general controls over its information systems. As a result of the review, recommendations were made to the Company to strengthen its controls in the following areas: logical security and business continuity and disaster recovery planning. The examination findings were presented to the Company along with recommendations to strengthen its controls. The Company should evaluate the recommendations and make appropriate changes to strengthen its information system controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders from August 18, 2004
through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 126,721,788	\$	\$ 126,721,788	(1)
Cash, cash equivalents and short-term investments	5,673,900		5,673,900	
Investment income due and accrued	1,026,209		1,026,209	
Uncollected premiums and agents' balances in the course of collection	525,647	118,252	407,395	
Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$3,000,000 earned but unbilled premium)	3,000,000	300,000	2,700,000	
Net deferred tax asset	6,577,310	2,369,634	4,207,676	
Guaranty funds receivable or on deposit	175,325		175,325	
Electronic data processing equipment and software	568,057	568,057		
Furniture and equipment	299,420	299,420		
Aggregate write-ins for other than invested assets	<u>825,467</u>	<u>825,467</u>		
Total assets	<u>\$ 145,393,123</u>	<u>\$ 4,480,830</u>	<u>\$ 140,912,293</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 50,667,986	(2)
Loss adjustment expenses			9,597,097	(2)
Commissions payable, contingent commissions and other similar charges			2,816,362	
Other expenses (excluding taxes, licenses and fees)			2,303,359	
Taxes, licenses and fees (excluding federal and foreign income taxes)			1,487,182	
Current federal and foreign income taxes			2,256,838	
Unearned premiums			3,605,234	
Advance premiums			2,444,698	
Ceded reinsurance premiums payable			2,295,311	
Amounts withheld or retained by company for account of others			4,794,271	
Payable for securities			(85,324)	
Aggregate write-ins for liabilities			<u>1,007,226</u>	
Total liabilities			83,190,240	
Common capital stock		\$ 1,000,000		
Gross paid in and contributed surplus		49,000,000		
Unassigned funds (surplus)		<u>7,722,053</u>		
Surplus as regards policyholders			<u>57,722,053</u>	
Total liabilities, surplus and other funds			<u>\$ 140,912,293</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income

Premiums earned		\$ 91,565,967
Deductions:		
Losses incurred	\$ 42,700,029	
Loss expenses incurred	10,690,435	
Other underwriting expenses incurred	<u>25,167,507</u>	
Total underwriting deductions		<u>78,557,971</u>
Net underwriting gain		13,007,996

Investment Income

Net investment income earned	\$ 4,258,728	
Net realized capital loss	<u>(21,406)</u>	
Net investment gain		<u>4,237,322</u>
Net income before federal income taxes		17,245,318
Federal income taxes incurred		<u>8,462,413</u>
Net income		<u>\$ 8,782,905</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		\$ 49,025,785
Net income	\$ 8,782,905	
Change in net deferred income tax	3,551,349	
Change in nonadmitted assets	(3,460,658)	
Aggregate write-ins for losses in surplus	<u>(177,328)</u>	
Change in surplus as regards policyholders for the year		<u>8,696,268</u>
Surplus as regards policyholders, December 31, 2006		<u>\$ 57,722,053</u>

Reconciliation of Surplus as Regards Policyholders
from August 18, 2004 through December 31, 2006

Surplus as regards policyholders, August 18, 2004, per Examination			\$ 49,384,432
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 7,366,442	\$	
Change in net deferred income tax	5,843,666		
Change in nonadmitted assets		4,480,829	
Aggregate write-ins for gains in surplus	<u> </u>	<u>391,658</u>	
Total gains and losses	<u>\$13,210,108</u>	<u>\$ 4,872,487</u>	
Net increase in surplus as regards policyholders			<u>8,337,621</u>
Surplus as regards policyholders, December 31, 2006, per Examination			<u>\$ 57,722,053</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds and Stocks

The Company's custodian for securities, Wells Fargo Bank, N.A., moved its headquarters from California to South Dakota, and is therefore no longer considered a "qualified custodian" as defined by California Insurance Code (CIC) Section 1104.9. It is recommended the Company deposit its securities with a qualified custodian, subcustodian, or depository located in California pursuant to CIC Section 1104.9.

(2) Losses and Loss Adjustment Expenses

The Company's reserves for losses and loss adjustment expenses were reviewed by a California Department of Insurance Casualty Actuary and were determined to be reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records - Information Systems Controls (Page 8): It is recommended that the Company review the recommendations made regarding its information systems and make appropriate changes to strengthen its controls.

Bonds and Stocks (Page 12): It is recommended the Company deposit its securities with a qualified custodian, subcustodian, or depository located in California pursuant to California Insurance Code Section 1104.9.

Previous Report of Examination

There were no comments or recommendations in the last examination report.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the officers and employees of CompWest Insurance Company during the course of this examination are hereby acknowledged.

Respectfully submitted,

/s/

Isabel Spiker, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California